

Contact: Debra Johnston

UNIVERSITY OF IOWA HOSPITALS AND CLINICS AUDIT REPORT

Action Requested: Receive the external audit report for the University of Iowa Hospitals and Clinics (UIHC) for the years ended June 30, 2021, and June 30, 2020.

Executive Summary: The UIHC report includes the audit of the basic financial statements for the fiscal years ended June 30, 2021, and June 30, 2020, as conducted by KPMG LLP, an independent auditing firm; and management's discussion and analysis of the financial activities of UIHC.

For reporting purposes, UIHC includes the following University of Iowa Health Care units: (1) University Hospital, (2) Psychiatric Hospital, (3) Stead Family Children's Hospital, and (4) Center for Disabilities and Development.

The audit concluded that the financial statements present fairly, in all material respects, the financial position of UIHC as of June 30, 2021, and June 30, 2020, and the results of its operations and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Dan Koraleski from KPMG LLP will be available via phone during the meeting to present the report and answer questions.

Background and Analysis: Annual audited financial statements of UIHC are required by Regent Policy Manual §2.2(9)(b)(iii) and by bond covenants.

UIHC includes substantially all health care provider activities for patient care associated with the university other than physician and dentist services and research activities, which are provided by the faculties of the university's Colleges of Medicine and Dentistry. Student Health Services, Specialized Child Health Services outreach programs, and the University of Iowa Health System, a UIHC affiliate, are not included in this report.

The financial statements have been prepared: (1) in accordance with governmental accounting principles generally accepted in the United States and (2) on an accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred without regard to receipt or disbursement of cash.

- As of June 30, 2021, net position totaled \$1.95 billion, an increase of \$201.2 million (11.5%) from the prior year. The increase is primarily due to an increase in operating income of \$87.0 million and investment income of \$116.4 million.
- For FY 2021, operating revenues totaled \$2.16 billion and operating expenses totaled over \$2.07 billion, for an operating income of \$87.0 million. The increase in net patient service revenue was driven by both pricing increases and volume increases in certain areas, including transplants, outpatient visits, outpatient surgeries, and outpatient pharmacy. The largest increases in expenses in 2021 were in medical supplies and drugs, which increased \$98.0 million, or 17.3%, when compared to 2020. In 2021, this growth was due to increased inflation in the cost of supplies and drugs and increased volumes in contract and retail pharmacy.

- Nonoperating revenues netted \$138.4 million, which included investment income of \$116.4 million and government funding of \$35.5 million, offset by interest expense of \$12.2 million.
- At June 30, 2021, UIHC had \$355.7 million in bonds and capital leases outstanding. During 2021, UIHC issued \$20.9 million of Series S.U.I. 2020 Revenue Refunding Bond and \$3.7 million of Series S.U.I. 2020 Telecom Refunding Bond. The proceeds of the bonds were used to refund the Series S.U.I. 2010 Revenue Bond and 2011 Telecom Bond.

Related Party Transactions: UIHC purchases certain administrative services, utilities, and other general services from the university. These services and support costs are purchased at the approximate cost incurred by the university. For the years ended June 30, 2021, and June 30, 2020, UIHC expensed approximately \$254.7 million and \$232.9 million, respectively, for these administrative services, utilities, and other services and support requirements.

UIHC also provides certain administrative services to units of the university. These services include billing, collection, and other physician practice-related clinic overhead expenses. For FY 2021 and FY 2020, UIHC received revenue of approximately \$9.5 million and \$9.4 million, respectively, for these services.

Revenue from Medicare and Medicaid programs accounted for approximately 27.7% and 16.4%, respectively, of UIHC's net patient revenue for the year ended 2021, and 27.8% and 15.1%, respectively, for the year ended 2020.

UIHC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. These amounts totaled \$64.5 million and \$50.8 million for 2021 and 2020, respectively, and are not reported as revenues in the accompanying statements.

The UIHC annual financial report also includes a section on management's discussion and analysis, which provides an objective analysis of the financial activities of UIHC based on currently known facts, decisions, and conditions. Please read in conjunction with the audited financial statements and accompanying notes to the financial statements.

Management's discussion and analysis includes the following sections:

- Financial Highlights
- Overview of the Financial Statements
- Statements of Net Position and Statements of Revenue, Expenses, and Changes in Net Position
- Net Patient Service Revenue
- Operating Expenses
- Nonoperating Revenue and Expenses, Net
- Statements of Cash Flows
- Capital Assets and Debt Administration
- Debt
- Contacting UIHC's Financial Management

Bonds Issued: During 2021, UIHC issued \$20.9 million of Series S.U.I. 2020 Revenue Refunding Bond. The proceeds of the bond were used by UIHC to refund the Series S.U.I. 2010 Revenue Bond.

During 2021, UIHC issued \$3.7 million of Series S.U.I. 2020 Telecom Refunding Bond. The

proceeds of the bond were used by UIHC to refund the Series S.U.I. 2011 Telecom Bond.

In August 2021, UIHC issued \$112.3 million of Series S.U.I 2021A Revenue and Refunding Bond. The proceeds of the bond were used by UIHC to refund the Series S.U.I. 2011 Revenue Bond; refund the Series S.U.I 2011A Revenue Bond; and pay for the costs of constructing, equipping, installing, and expanding certain hospital and clinic facilities.

In August 2021, UIHC issued \$148.7 million of Series S.U.I 2021B Refunding Bond. The proceeds of the bond were used by UIHC to advance refund the Series S.U.I. 2012 Revenue Bond.